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BEFORE

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2014-69-S

SC PUBLIC SERVICE
COMMISSION

IN RE:

Application of Palmetto Wastewater
Reclamation LLC, d/b/a Alpine
Utilities and Woodland
Utilities for adjustment
of rates and charges for, and modification
to certain terms and conditions related to
the provision of sewer service.

REBUTTAL TESTIMONY OF
EDWARD R. WALLACE, SR., CPA

**Q. ARE YOU THE SAME EDWARD R. WALLACE, SR. WHO HAS PREFILED
DIRECT TESTIMONY IN THIS MATTER?**

A. Yes, I am.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
PROCEEDING?**

A. The purpose of my rebuttal testimony is to respond on behalf of Palmetto Wastewater Reclamation LLC, or "PWR," to a portion of the direct testimony of Alexis F. Warmath submitted on behalf of the intervenors in this case, Arch Enterprises, LLC, doing business as McDonalds and Corley Construction, LLC, doing business as Broad River Carwash and Laundry.

1 **Q. DO YOU AGREE WITH MR. WARMATH'S ANALYSIS AND HIS**
2 **CONCLUSIONS?**

3 **A.** For a variety of reasons, I do not. Specifically, I disagree with Mr. Warmath's
4 suggestion that monthly sewer service rates can and should be determined by reference to
5 our customer's water consumption. Of course, rate design is a matter within the
6 Commission's discretion and there are alternatives available to the Commission as
7 mentioned in the rebuttal testimony of PWR witness Gary Walsh. As long as PWR is given
8 the opportunity to achieve its revenue requirement, alternative rate designs may certainly
9 be appropriate. I do not believe, however, that Mr. Warmath's recommendations in regard
10 to rate design should be adopted by the Commission. Further, I disagree with Mr.
11 Warmath's criticism of the formula I developed to support a reduction in the capacity factor
12 for cars served by a fast-food restaurant drive-thru from 0.10 as provided for in PWR's
13 current rate schedule to 0.025 as proposed in the Company's application.

14 **Q. WHY IS A DETERMINATION OF SEWER RATES USING METERED WATER**
15 **CONSUMPTION AS MR. WARMATH SUGGESTS IN HIS TESTIMONY NOT**
16 **APPROPRIATE GENERALLY AND IN THIS CASE?**

17 **A.** Generally, setting sewer rates based upon metered water consumption does not
18 account for strength of flow which, contrary to Mr. Warmath's suggestion otherwise, is a
19 factor in the cost of treatment as between residential and commercial customers. This is
20 mentioned in the testimony of PWR witness Walsh and discussed more specifically in the
21 rebuttal testimonies of Company witnesses Melcher and Sadler. Also, because there are

1 differing levels of wastewater discharge between residential customers, between
2 commercial customers, and between residential and commercial customers, the use of
3 water consumption as a proxy is certainly subject to criticism as Mr. Walsh's rebuttal
4 testimony suggests.

5 More importantly, using metered water consumption in the manner Mr. Warmath
6 suggests in his alternative rate design proposal in this case is inappropriate not only for that
7 reason, but also for the simple reason that PWR does not have access to its customers'
8 metered water consumption billing records from the City of Columbia. I have been
9 informed by the City that it is not willing to provide that information to PWR. The
10 Company has no ability to force the City to provide the information and the Commission
11 has no authority with respect to the City in this regard. So, in this case, the basis for Mr.
12 Warmath's suggested alternative rate design is simply not feasible.

13 **Q. ARE THERE ANY OTHER REASONS WHY USING MUNICIPAL METERED**
14 **WATER CONSUMPTION IN A RATE DESIGN WOULD BE PROBLEMATIC?**

15 **A.** There certainly are and my knowledge of them stems from the use of such a rate
16 design by PWR's sister subsidiary, Palmetto of Richland County LLC, or "PRC."

17 Although Mr. Warmath alludes to the PRC rate design in his testimony, he fails to
18 mention that PRC's rate design resulted from the Commission's approval of a contract by
19 which PRC acquired a sewer system from the City of Columbia. This contract included a
20 specific requirement that the City's former sewer customers continue to be charged the
21 same rate as they had previously been charged by the City unless and until a change was

1 authorized by the Commission. Thus, PRC's rate design necessarily employs the City's
2 rate design which, by its then current ordinance, provides that each customer be charged
3 based on metered water consumption. I have attached a copy of the City's ordinance as
4 ERW Rebuttal Exhibit 1, which is incorporated into the PRC rate schedule approved by
5 the Commission in Order No. 2012-960, issued December 21, 2012 in Docket No. 2012-
6 273-S.

7 PRC has experienced a number of problems with implementing its rate design.
8 Not the least of these is the inherent difficulty in billing for PRC's sewer service which
9 arises out of the requirement that a water meter first be read. This difficulty would likely
10 not be an issue for the majority of governmental utilities that utilize this type of rate design
11 to which Mr. Warmath refers because they also provide the water service and have
12 immediate access to consumption records for their wastewater customers.

13 Also, where a PRC sewer customer has a dispute with the City over its water bill
14 and refuses to pay all or a portion of its sewer bill as a result, PRC is caught in a regulatory
15 "no-man's land" as it cannot disconnect service where the amount of water consumption
16 and thus the amount of the sewer bill is being disputed by the customer; to the contrary,
17 under Commission regulations, PRC has to await the resolution of the customer's water
18 billing dispute with the City before it can act on the disputed wastewater bill.

19 Further, PRC becomes subject to either having to make a refund if the water billing
20 dispute is resolved in the customer's favor and the customer has paid its sewer bill or to
21 having lost the time value of money if the billing dispute is resolved in the City's favor and

1 the customer has paid none or only a portion of its sewer bill. Also, in these circumstances
2 PRC does not have the ability to seek the assistance of either the Commission or ORS in
3 resolving a dispute over water consumption as neither of these agencies has jurisdiction
4 over governmental water utilities and must simply await the outcome of the dispute. In
5 addition to not being efficient from a time-demand standpoint, PRC incurs additional
6 personnel costs in dealing with billing disputes such as these which are beyond its control.
7 And, difficulties in managing disputed PRC billings can also arise from the fact that the
8 deadlines associated with disconnection of a sewer customer under the Commission's
9 regulations – which involve a forty day period and two certified letters – often do not mesh
10 with the time periods that it takes for water consumption disputes with the City to be
11 resolved.

12 Finally, Mr. Warmath's assertion fails to account for the cost of obtaining the
13 information needed to utilize such a billing arrangement. Even assuming that the City was
14 willing to provide that information to PWR -- which, again, it has informed me that it is
15 not -- there would be a cost to obtaining the information. Currently, PRC pays the City a
16 base charge of \$0.50 per customer per month to obtain water billing information from the
17 City. This alone would amount to an additional cost to PWR of approximately \$10,000.00.
18 In addition, the City imposes additional fees related to items such as meter re-reads, meter
19 testing, and administrative charges which have cost PRC about another \$1.60 per customer
20 per month. All of these costs would have to be distributed among our customers, And, just
21 by the nature of their business operations, laundromats and carwashes will have a higher

1 concentration of detergent in their wastewater flows than will residential customers. Even
2 if the same rates and fees could be obtained from the City.

3 So, while this billing method may be the most efficient for a governmental utility
4 or a public utility providing both water and sewer services, it is not the most efficient
5 method for PWR.

6 **Q. WHAT IS YOUR RESPONSE TO MR. WARMATH'S CRITICISMS OF THE**
7 **FORMULA USED TO DETERMINE THE EQUIVALENCY FACTOR FOR CARS**
8 **SERVED BY FAST-FOOD RESTAURANTS WITH DRIVE-THRU FACILITIES?**

9 A. As its author, I would be the first to acknowledge that the formula is not perfect.
10 However, I believe that it is a reasonable basis upon which to design a commercial rate for
11 this type of customer. It should be borne in mind that the formula evolved from an effort
12 to adjust equivalencies to meet the needs of one category of commercial customer in the
13 most recent Palmetto Utilities, Inc., or "PUI," rate case and is consistent with the
14 recommendation made by ORS in its June 17, 2013, report to the Commission in Docket
15 No. 2012-94-S. The formula uses inputs from a variety of sources, including data supplied
16 by fast-food restaurants served by not only PWR, but also PUI, which are under the
17 common ownership of Ni America Capital Management LLC and serve customers in the
18 midlands regions of South Carolina. Having said that, Mr. Warmath's criticisms are based
19 upon a number of erroneous factual statements and are otherwise without merit.

1 Contrary to Mr. Warmath's contention, the formula is not "using an adjusted factor
2 to determine **water** use for restaurants with drive-thru facilities" and the DHEC guidelines
3 do not "specify 40 gallons of **water** usage per car using the drive-thru." As to the first of
4 these contentions, the average daily total water use for all eight of the restaurants that
5 provided data to PUI is only an input in the formula, not the product of the formula as Mr.
6 Warmath's statement suggests. Interestingly, the average among these eight restaurants is
7 not inconsistent with the average daily water use of Arch Enterprises, LLC, which is 1,940
8 based on Mr. Warmath's testimony. As to the second of these contentions, the guidelines
9 specify that the maximum wastewater flow demand that must be designed into a
10 wastewater treatment plant for a car served by a fast-food restaurant drive-thru is forty
11 gallons. The guidelines do not specify any water – or even wastewater – use.

12 Also, and as is discussed in detail in Mr. Sadler's rebuttal testimony, Mr.
13 Warmath's comments regarding the formula incorrectly assume that the number of SFEs
14 multiplied by the 400 gallons that constitute an SFE should equal system capacity. The
15 guidelines simply provide maximum flow demands for individual customer classes and
16 categories. So, in this regard, Mr. Warmath's criticism of the formula is without basis.

17 With respect to the 20% peaking factor included in the formula, the justification for
18 this is simply that using an average number for inputs in the formula requires some
19 adjustment to reflect peaks in water demand and cars served. This peaking factor was
20 accepted by the parties in their settlement in the PUI rate case Mr. Warmath mentions and
21 was approved by the Commission in its order adopting the settlement. Also, I note that

1 notwithstanding his criticism of the use of this peaking factor, Mr. Warmath applied a 10%
2 peaking factor in his own testimony to estimate average residential wastewater flows.

3 Mr. Warmath also criticizes the formula for using cars, but not seats, in a fast-food
4 restaurant to reach the 10 gallons per car equivalency factor for cars proposed in the
5 application. He asserts that it results in an overestimation of actual flows from a fast-food
6 restaurant and the cost impact it has on the wastewater system. However, if seats had been
7 used, the SFEs would not have been different since seats and cars are both counted at 40
8 gallons under the current rate schedule. And, if any emphasis had been put on seats versus
9 cars in the formula, it would have only increased the amount of gallons per car over and
10 above 10 gallons as some fast food restaurants – including the McDonalds restaurant
11 operated by Arch Enterprises, LLC – are 24 hour restaurants and the equivalency factor for
12 them is 70 gallons per seat. Consistent with the determination made by ORS in its report
13 that wastewater utilities should have flexibility in determining the equivalency factors to
14 meet the needs of commercial customers, PWR has not sought to impose charges based on
15 70 gallons per seat for this customer as we suspect that a large portion of its late-night
16 business is drive-thru only.

17 **Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?**

18 **A.** Certainly. Of course, the Commission has the discretion to adopt another rate
19 design that would permit PWR an opportunity to recover its revenue requirement.
20 However, Mr. Warmath's recommendation that PWR's monthly service charges be
21 determined using an alternative rate design which refers to metered water consumption

1 does not account for differences between the pollutant strength of wastewater flow from
2 residential customers and commercial customers and fails to take into consideration the
3 differences in wastewater discharge levels between and among residential and commercial
4 customers that has been testified to by other witnesses for the Company. Further, this
5 alternative is not feasible in view of the fact that PWR does not have, and cannot get, access
6 to customer metered water consumption data from the City. Even if this data were
7 available, my experience with use of a rate design based on metered water consumption by
8 PRC indicates that there are cost and regulatory issues that Mr. Warmath does not consider
9 which make his proposal problematic for PWR. Finally, the formula used to arrive at an
10 equivalency rating of 0.025 per car served – which results in a reduction in monthly charges
11 for Arch Enterprises, LLC, of approximately \$2,077 per month -- has a basis in reason that
12 supports it. Mr. Warmath's misunderstanding of the formula inputs is not a reason to reject
13 the adoption of the formula for use by PWR. The formula represents an effort to adjust
14 equivalency factors to meet the needs of customers providing drive-thru service at fast-
15 food restaurants. The alternative rate design proposal advanced by Mr. Warmath which
16 would permit Arch Enterprises, LLC, to pay only \$373 per month appears to me to simply
17 shield one intervenor from the effects of rate relief which the Company has previously
18 received and additional rate relief to which the Company believes it is entitled in this
19 proceeding. This proposal would also impermissibly seek to shift a portion of the revenue
20 requirement onto other customers and results in a service per SFE in excess of the requested
21 rate. It should therefore be rejected as not resulting in a just and reasonable rate.

1 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

2 **A.**Yes, it does.

(a) *Generally.* Except as otherwise provided by contract, the monthly sewer service charge shall be as follows:

Size of Meter (inches)	In City	Out of City
5/8	\$6.00	\$10.20
1	6.00	10.20
1½	6.00	10.20
2	9.60	16.32
3	19.20	32.64
4	30.00	51.00
6	60.00	102.00
8	96.00	163.20
10	150.00	255.00

Monthly Water Use (cubic feet)	Monthly Sewer Service Charge	
	In City	Out of City
Each 100 cubic feet	2.90	4.93

(b) *Consumers using water cooling towers for air conditioning.* Consumers using water cooling towers for air conditioning systems shall be given a credit of 30 cubic feet per ton per month during the service periods commencing in the months of April through October. The minimum charge shall be:

Size of Meter (inches)	In City	Out of City
5/8	\$9.73	\$12.37
1	13.72	18.11
1½	17.70	23.85
2	25.66	35.31
3	41.59	58.25
4	73.44	104.13
6	153.06	218.84
8	216.75	310.60
10	477.50	686.26

- (c) *Limitation on charge on single-family residences.* Maximum sewer charge on single-family residences during the service periods commencing in the months of April through October will be 1,400 cubic feet.
- (d) *Apartments and trailer parks.* Sewer rates for apartment buildings and trailer parks shall be the base rate of a single-family residence per dwelling unit plus a base fee based on meter connection size plus the rate per 100 cubic feet as reflected by water consumption.
- (e) *Hotels, motels, dormitories and roominghouses.* Sewer rates for hotels, motels, dormitories and roominghouses shall be one-half the base rate of a single-family residence per room plus a base fee based on meter connection size plus the rate per 100 cubic feet as reflected by water consumption.
- (f) *Contaminated groundwater.* Separate meters for discharges of contaminated groundwater are required. In city or out of city customers discharging contaminated ground water shall pay the out of city base monthly sewer service charge times one and one-half plus the out of city monthly sewer service charge for each 100 cubic feet times one and one-half.

(Code 1979, § 5-4005; Ord. No. 94-27, 6-8-94; Ord. No. 97-57, 9-17-97; Ord. No. 98-40, 6-17-98; Ord. No. 2000-042, 6-19-00; Ord. No. 2000-063, 9-6-00; Ord. No. 2005-057, 6-22-05; Ord. No. 2006-046, 11-8-06; Ord. No. 2007-044, 6-27-07; Ord. No. 2008-039, 6-18-08; Ord. No. 2010-089, 6-23-10; Ord. No. 2011-027, 6-21-11; Ord. No. 2012-050, 6-26-12; Ord. No. 2012-077, 8-21-12; Ord. No. 2012-099, 10-16-12)